



## CONGRESSIONAL BUDGET OFFICE PAY-AS-YOU-GO ESTIMATE

November 20, 2000

### **H.R. 4986**

### **FSC Repeal and Extraterritorial Income Exclusion Act of 2000**

*As cleared by the Congress on November 14, 2000*

H.R. 4986 would repeal present-law foreign sales corporation (FSC) rules. Under current law, U.S. firms generally are subject to U.S. tax on their worldwide income, but they are allowed tax credits for a portion of the income taxes they pay to foreign governments on that income. Within that general framework, U.S. law permits the use of FSCs, through which a portion of domestic firms' export income is characterized as foreign source and is exempted from U.S. tax. Under the legislation, U.S. firms could elect to exclude certain qualifying foreign trade income from their taxable income, with qualifying foreign trade income defined to include a portion of income attributable to sales by U.S. taxpayers. Certain limitations with respect to the sourcing of taxable income would apply to certain sale transactions involving property that is manufactured within the United States. To be eligible for the exclusion, firms would not be allowed tax credits for income taxes paid to foreign governments on the qualifying foreign trade income. Qualifying foreign trade income would be calculated by using one of several formulas. The remaining portion of income earned from sources abroad would be taxed in a similar manner as under current law.

The Joint Committee on Taxation (JCT) estimates that the bill would reduce revenues by \$153 million in 2001, by about \$1.6 billion over the 2001-2005 period, and by about \$4.5 billion over the 2001-2010 period.

The estimated budgetary impact of H.R. 4986 is shown in the following table. Estimates of all provisions in H.R. 4986 were provided by JCT. For the purposes of enforcing pay-as-you-go procedures, only the effects in the the budget year and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in receipts	-153	-315	-348	-384	-423	-466	-514	-566	-623	-687
Changes in outlays					Not applicable					

The CBO staff contact for this estimate is Erin Whitaker. This estimate was approved by G. Thomas Woodward, Assistant Director for Tax Analysis.